



[SF 565](#) – Department of Revenue Omnibus (LSB1239SV.1)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – Final Action

Description

[Senate File 565](#) is composed of 16 divisions. The Bill relates to taxes, the State school aid calculation, and the administrative procedures of the Department of Revenue (Department). The Bill has various effective dates, including immediate effective dates and retroactive applicability dates.

Divisions with No Projected Fiscal Impact

- Division II — Bonus depreciation and increased expensing clarification.
- Division III — Tax filing status clarification, conformity to federal tax return.
- Division V — Tax year (TY) 2026 tax rate reference correction.
- Division VI — Department Director settlement authority, tax assessment appeal period, and sales tax return examination period.
- Division VII — Tax preparer identification number requirement.
- Division VIII — Department setoff fee authority.
- Division XI — Department electronic communications rules.
- Division XII — Composite return filing for financial institutions subject to bank franchise tax.

Divisions with Minor Projected Fiscal Impacts

- **Division I — Contribution and designation due dates.** Current Iowa law allows a taxpayer to make tax-deductible contributions to an Iowa educational savings plan trust (529 account) for a tax year up to the due date of the tax return for that tax year (April 30). The Bill extends the contribution deadline if the taxpayer lives in an area that has been declared a natural disaster area by the Governor and the Department Director has extended the tax return filing deadline for the disaster area. The Bill also makes the same deadline allowance for beneficiary designations for a first-time homebuyers savings account. The 529 account deadline extension will allow taxpayers to make deductible 529 account contributions for the previous tax year that they would not be able to make without the law change. The annual number of taxpayers benefiting from this change is expected to be minimal, and the State General Fund fiscal impact is projected to be negative and low.
- **Division IV — Individual income tax withholding.** The Bill rewrites Iowa Code section [422.16](#) relating to income tax withholding agents and the withholding of Iowa income tax from the wages and other income of residents and nonresidents. The changes do not alter income tax liability, but the changes may alter when and if income tax is withheld. Changes to withholding may result in fiscal impacts across fiscal years as income tax withheld in one fiscal year often becomes a component of the tax liability calculation for a tax return filed in the following fiscal year.
- **Division IX — Homestead Tax Credit.** The Bill redefines “owner” as it relates to qualifications for the Homestead Tax Credit. While much of the definition change is to improve clarity, the change also allows persons who own a home but do not own the land on which the home is located to be considered an owner in regard to credit qualifications. This change is projected to increase the total number of owners qualifying for the property tax credit. The statewide number of owners of homes who do not own the land on which the

home is located is not known. For every 100 such homes, the annual fiscal impact on the State General Fund Homestead Tax Credit appropriation would be an increase of approximately \$14,000.

- **Division X — Elderly and Disabled Property Tax Credit.** Current Iowa law includes the term “any pension or annuity” within the definition of “income” that is used to determine eligibility for the Elderly and Disabled Property Tax Credit. The Bill adds language listing specific types of pension and annuity income, including income received pursuant to a farm tenancy agreement covering real property. The language may result in an increase in the number of people qualifying for the State-funded property tax credit and the associated rent reimbursement payment and manufactured and mobile home tax reductions. The Department reports that the change will codify current practice related to the determination of income.
- **Division XIII — Retired farmer income exclusions.** The Bill amends the definition of “materially participated” in regards to two Iowa individual income tax preferences available to farmers (Iowa Code sections [422.7\(13\)](#) and [422.7\(14\)](#)). Under current law, the definition cites federal law. The amendments make inapplicable to the definition a provision of federal law that relates to a taxpayer who died or is the surviving spouse of a deceased taxpayer. While the negative annual fiscal impact of this change to the State General Fund is likely to be under \$100,000, the impact to specific taxpayers could be significant.
- **Division XIV — Transfers of individual income surtax.** The income surtax for schools applies a surtax to the State individual income tax liability of income taxpayers who reside in a school district where the surtax is in place. When received, surtax amounts are deposited to the State General Fund. Under current practice, accumulated surtax is moved out of the General Fund to a separate fund monthly, with 75.0% to 85.0% of the transferred amount for a fiscal year (a total of \$118.3 million in FY 2022) transferred during the months of March through June. The following December and February, moneys within the separate fund are distributed to the school districts that had a surtax in place for the previous tax year. The Bill codifies a scheduled monthly transfer of surtax from the General Fund to the separate fund. The change does not have a projected General Fund fiscal impact as long as the codified schedule does not change the fiscal year to which any of the monthly transfers out of the General Fund to the separate fund are recorded.
- **Division XV — Calendar year 2022 composite returns of an estate.** Current Iowa law requires a composite tax return and associated composite tax payment, if applicable, for nonresident beneficiaries of an estate or trust. A certificate of acquittance is a statement from the Department certifying that all income taxes due from the estate or trust have been paid in full based on the income and deductions reported to the Department. The Bill makes inapplicable provisions of Iowa law that require a composite tax return and composite tax payment if an estate with a tax year of 2022 received a certificate of acquittance from the Department without having filed a composite tax return for the estate. The fiscal impact of this change is not known. While the law change will cause the composite tax to no longer be owed, persons receiving taxable distributions from the estates may be required to pay any inheritance tax that remains due.

Division XVI Background and Fiscal Impact — Property Tax Payments to School Districts

Iowa Code section [441.21\(5\)](#) provides that up to \$150,000 of the assessed value of commercial and industrial property shall be taxed at the lower residential rollback percentage instead of at the fixed 90.0000% rollback for commercial and industrial property. This provision lowers the taxes owed for each commercial or industrial property, with the exception of specified wind energy conversion property. Iowa Code section [441.21\(5\)\(e\)](#) provides a standing General Fund appropriation of up to \$125.0 million per year to reimburse the local property tax system for the tax reduction that is the result of the residential rollback provision. Iowa Code section [441.21\(5\)\(e\)\(6\)](#) provides that the General Fund payments to the property tax system shall be

apportioned to the levy authorities that tax the property, and the payments shall be treated the same as property taxes paid.

The Bill clarifies that the business property tax exemption payments from the State General Fund to the local property tax system are to be considered property tax within the State school aid formula. While this clarification does not have a fiscal impact, the result is an estimated \$16.0 million reduction in the FY 2024 State General Fund appropriation for school aid from the level assumed for FY 2024 budgeting purposes.

Sources

Department of Revenue
Department of Management
Legislative Services Agency analysis

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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